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COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, DECEMBER 21, 2001

APPLICATION OF

THE POTOMAC EDISON COMPANY
d/b/a ALLEGHENY POWER

CASE NO. PUE000280

For approval of functional
Separation plan (Phase II)

ORDER ON FUNCTIONAL SEPARATION

On December 19, 2000, the Potomac Edison Company d/b/a Allegheny Power Company ("AP" or "the Company") filed an application in Case No. PUE000280 pursuant to § 56-590 of the Code of Virginia, for approval of the second phase ("Phase II") of its plan for functional separation as required by the Virginia Electric Utility Restructuring Act ("the Act").¹ The Act requires that the Commission complete its review of proposed plans of separation by January 1, 2002.

In its July 11, 2000 Order Approving Phase I Transfer in this matter ("Phase I Order"), the Commission approved a Memorandum of Understanding ("MOU") the Company reached with the Staff and the Office of the Attorney General, Division of Consumer Counsel ("Attorney General"). The Phase I Order noted that AP had sought approval of the transfer of AP generating

¹ Code § 56-576 et seq.

units to Allegheny Energy Supply ("GENCO"), an affiliate of AP, pursuant to the the Act and the Utility Affiliates Act², and also pursuant to the Utility Transfers Act³, "to the extent this provision is applicable."

As noted, pursuant to the Phase I Order, AP transferred generating assets to GENCO, except for four small hydroelectric generating facilities located in Virginia.⁴ The Phase I Order pertained primarily to assets located outside the Commonwealth of Virginia, to which our jurisdiction under the Utility Facilities Act does not extend.⁵ Hence, the Company's request for approval under the Transfers Act was limited "to the extent this provision is applicable."

These assets were the ones with which AP has over the years provided the bulk of service to customers in Virginia, but they are not situated within the Commonwealth. In this regard, AP's functional separation plan critically differs from applications filed by utilities having substantial in-state generation

² Code § 56-76 et seq.

³ Code § 56-88 et seq.

⁴ We approved the subsequent transfer of the small hydroelectric facilities located in Virginia on December 14, 2000, in our Final Order in Case No. PUA000064, to a subsidiary of AP, Green Valley, Hydro, L.L.C., which according to AP, was to become a subsidiary of Allegheny Energy Supply.

⁵ Section 56-89 of the Code makes it "unlawful for any public utility, directly or indirectly, to acquire or dispose of any utility assets situated within the Commonwealth . . . unless such acquisition or disposition shall have been authorized by the Commission."

assets, such as American Electric Power-Virginia and, most prominently, Virginia Electric and Power Company.

Our approval regarding the transfer of these out-of-state assets was required solely because AP proposed to transfer them to an affiliated company. Divestiture of the assets to an unaffiliated third party could have been accomplished without this Commission's approval under the Utility Transfers Act, and without any of the agreements reached by the Company, Staff and the Attorney General.⁶

In the MOU, the Company agreed to: (i) reduce the base rates of its Virginia customers by \$1 million annually, effective July 1, 2000; (ii) not file an application for a base rate increase prior to January 1, 2001; (iii) operate and maintain its distribution system in Virginia at or above historic levels of service quality and reliability, and to maintain that quality of service through timely improvements; (iv) provide default service under the Act by contracting for generation services for default service customers at the same cost that it would have incurred to serve customers from the units it was divesting to GENCO; and (v) terminate its fuel cost recovery mechanism and recover fuel costs in base rates.

⁶ Under certain circumstances, transfers of out-of-state assets may require our approval under the federal Public Utilities Holding Company Act.

In its July 26, 2000 Order entered in this docket, the Commission approved the elimination of the fuel factor recovery mechanism in AP's rates, ordered the Company's fuel expenses, estimated in the MOU to be 1.181 cents/kWh to be rolled into AP's base rates, approved the proposed \$1 million rate reduction, and established capped rates. The Commission also approved the Company's agreement not to impose any wires charges during the capped rate period.

The Commission promulgated rules⁷ for the functional separation required by the Act. As required by these rules, the Company filed a cost of service study that separates Virginia jurisdictional operations by class and function for the twelve months ended December 31, 1999. According to the Company, the study was based on the cost of service study in the Company's most recent AIF, but includes adjustments to revenue to annualize rates effective August 7, 2000, as approved by the Commission in this proceeding.⁸

Under the Company's Plan, AP would be the "incumbent electric utility" under the Act, with attendant responsibilities associated with that designation. AP would be responsible for

⁷ Commission's Regulations Governing the Functional Separation of Incumbent Electric Utilities under the Virginia Electric Utility Restructuring Act ("Rules"), 20 VAC 5-202-10 et seq., adopted in Case No. PUA000029.

⁸ See Application of The Potomac Edison Company d/b/a Allegheny Power, For approval of a functional separation plan, Case No. PUE000280, Order Approving Elimination of Fuel Factor and Establishing Capped Rates (July 26, 2000).

providing retail customers with capped rate service until July 1, 2007,⁹ and default service under the Act, if it is designated as a default service provider pursuant to § 56-585 of the Code of Virginia.¹⁰

The Company's Phase II application included proposed retail access tariffs. These tariffs separated bundled monthly rates for service into unbundled components to reflect distribution, transmission and generation charges. Transmission charges were also unbundled into base and ancillary services.

Further, the Company's retail access tariffs proposed a "minimum stay" provision for non-residential customers who voluntarily choose to return to default service. The application also contained a "Competitive Service Provider Coordination Tariff", which AP represented, defined the operational relationship between the Company and competitive service providers ("CSPs") for the provision of competitive generation service in the Company's service territory. This proposed tariff addressed, among other things, such issues as creditworthiness requirements, noncompliance and default, load

⁹ Capped rate service can be terminated on and after July 1, 2004, in an incumbent electric utility's service territory if the Commission, upon application of an incumbent, electric utility, pursuant to §56-582 C of the Act, finds that there is an effectively competitive market for generation services within the utility's service territory.

¹⁰ This provision of the Act, which establishes the manner by which we establish prices for default services, was extensively amended by the 2001 Session of the General Assembly, subsequent to the entry of our Phase I Order.

forecasting and scheduling procedures, and competitive service provider billing.

In its Order dated June 22, 2001, the Commission directed the Company to provide notice to the public and established a procedural schedule for the filing of comments or requests for hearing on AP's application. In that Order, the Commission directed its Staff to investigate the application and file a Report detailing its findings and recommendations on or before September 4, 2001. Ordering Paragraph (9) of the June 22, 2001 Order provided that the Company and any interested person could file responses to the Staff's Report on or before September 20, 2001.

On July 18, 2001, the Company, by counsel, filed its proof of publication together with proof of its service on local governmental officials. On August 30, 2001, the Company supplemented its proof of service, providing additional certificates of newspaper publication.

On July 27, 2001, AES NewEnergy, Inc., ("AES" or "NewEnergy") filed its Notice of Participation in this matter, together with its Comments on AP's application. AES did not request a hearing, but reserved its rights to participate further in this proceeding.

On August 17, 2001, the Staff filed a "Motion to Extend Procedural Dates". Staff requested that it be granted an

extension of time in which to file its Report to October 12, 2001, and also asked that the date by which responses to the Report could be filed be extended to October 31, 2001. In support of its request, Staff alleged that it required additional time in which to prepare its Report in order to consider various revisions the Company intended to include in its cost of service study and unbundled rates. Staff represented that both AP and AES did not oppose the request for an extension.

On August 27, 2001, the Commission granted the Staff's request. It extended the date by which the Staff could file its Report to October 12, 2001, and the date by which responses to the Staff Report could be filed to October 31, 2001.

On October 12, 2001, Staff filed its Report, wherein, among other things, it recommended that the Commission approve AP's unbundled rates, and terms and conditions of service with certain modifications recommended by Staff. The Staff noted that AP had transferred its generation-related assets and liabilities (except for the small hydro facilities) to Genco, which would own and operate the generation facilities effective August 1, 2000.

Staff observed in its Report, among other things, that AP had adopted numerous safeguards to ensure compliance with the Commission's regulations prohibiting cost-shifting or cross-

subsidies between functionally separate units and with the requirements of § 56-590 D of the Code of Virginia. In this regard, Staff recommended that the Commission monitor and review the Company's business practices and internal controls and require AP to conduct annual internal compliance audits to ensure that the internal controls it has implemented following functional separation are adequate and continue to be in compliance with the Commission's regulations. The Staff further proposed that the Company file the results of its internal compliance audits with the Commission's Division of Public Utility Accounting ("the Division") by May 1 of each year until such time as the Division determined that such information was no longer necessary. Additionally, the Staff recommended that AP be required to report any future changes to its business practices or internal controls to the Division.

With regard to the Company's unbundled tariffs, the Staff noted that AP represented that it had revised its application regarding competitive service provider coordination tariffs as required by the Commission's June 19, 2001 Order in Case No. PUE010013.¹¹ The Staff also provided an exhibit showing the

¹¹ In Case No. PUE010365, Allegheny requested a waiver of Rule 20 VAC 5-312-80 of the rules adopted in Case No. PUE010013. See Commonwealth of Virginia, ex rel. State Corporation Commission, Ex Parte: In the matter of establishing rules for retail access, Case No. PUE010013, Doc. Con. Ctr. No. 01063011, (June 19, 2001 Final Order) ("Retail Access Rules"). This Rule requires that if more than one request for a change in a customer's competitive service provider is received from a customer during one enrollment period, the first

effect of allocating 50 percent of metering and billing related costs to the production and transmission functions just as Staff's consultants did in Virginia Power's functional separation case.

With regard to AP's unbundled tariff rates, Staff commented that the terms of service of the individual retail rate schedules should be clarified to specify that the minimum term of service requirements applied to the provision of delivery service only. Staff further recommended that AP's tariff be revised to reflect the minimum stay requirements adopted in Case No PUE010296. Staff also opposed the Company's proposal to implement a \$10.00 switching fee for each customer switching electric service providers. Moreover, Staff proposed that the Company permit customers to switch suppliers effective with a special meter reading request. It observed that Allegheny's residential customers' meters were read only once every two months and commented that a customer deciding to switch energy suppliers should not be required to wait two months or more to become eligible for that service.

Staff also addressed the load scheduling and settlement portions of AP's proposed coordination tariff. Staff noted that the 30-day settlement described in tariff S.C.C. Va. No. 16,

request will be the request honored. AP requested and received approval to honor the last request received during any enrollment period, and to disregard any previous requests received during that period.

§ 9.3 of the Coordination tariff is priced at the AP Control Area Operator's Hourly Marginal Rate but that the basis for the hourly marginal rate was not described. Staff noted that no description of pricing for the 90-day true up settlement in S.C.C. Va. No. 16, Section 9.4 was included. Staff proposed that the pricing basis should be identified in AP's tariff for each of the settlements. Staff also requested the Company to correct a typographical error in S.C.C. Va. No. 16, Section 9.4.4 of the Company's tariff.

On the issue of credit amounts required for CSPs, Staff suggested that the definition of "credit amount", found in S.C.C. Va. No. 16, Section 1, should not include the retail customer's payments to the CSP in the determination of the security deposits required from a CSP. According to the Staff, the Company is not at risk for the customer's payments to the CSP. Staff recommended that the tariff be revised to delete that reference. It also proposed that the Company's tariff should be revised to include at least a 60 day notice from a CSP discontinuing service in the Company's service area.

Staff supported a 60-day period before any coordination agreement between the Company and CSP is terminated. It noted that if a CSP continues to market in its service area, but does not have current customers, AP should be willing to suspend

termination actions for a specified period that should be identified in the proposed tariffs.

The Staff noted that the Company proposed various additional coordination tariff fees that AP proposed to apply to a CSP. Staff did not oppose the fees and noted that they appeared to be supported by cost data supplied in response to Staff's interrogatories.

On October 31, 2001, AP, by counsel, filed its Response to the Staff Report ("Response"). In its Response, the Company noted that it filed a cost of service and unbundled retail tariffs on October 12, 2001, incorporating the changes to AP's cost of service noted in the Staff Report, as well as revisions relating to the minimum stay service requirements, elimination of the Company's proposed \$10 switching fee, clarification of the definition of "AP Control Area Operator's Marginal Hourly Price", the "credit amount" for CSP, and use of a 60-day notice requirement in the CSP coordination tariff prior to a CSP discontinuing service in the Company's service territory.

AP opposed Staff's recommendations regarding monthly meter reads for residential customers and Staff's proposal to permit residential customers to switch to a CSP on an off-cycle reading date. The Company asserted that it could incur significant costs approaching \$1 million to implement monthly billing and metering and contended that there were no perceivable benefits

to customers if such changes were made. AP maintained that there was no evidence to suggest that bi-monthly metering kept customers from selecting a CSP or hampered a competitive market. The Company noted it would monitor the situation in the event changes were warranted. With regard to termination of its CSP coordination agreement, AP commented that it has not been its practice to terminate coordination agreements in cases where the CSP continued to market in AP's service territory but had no customers.

Further, in its Response, AP opposed an allocation of metering and billing costs to the production function. It asserted that metering and billing costs will continue to be incurred by the Company following restructuring, and that no metering and billing costs will be avoided as a result of a customer's switch to an alternative energy supplier. The Company contended that it would be unable to recover any portion of the cost of metering as billing costs if these costs were allocated to the generation function. It observed that it had waived its right to charge a wires charge in an earlier part of the case. AP maintained that the wires charge was designed to enable a distribution company to capture any lost revenue resulting from allocating costs to generation in the event that a customer selects an alternative energy supplier. The Company supported a 100% allocation of metering and billing costs to the

distribution function. It proposed that to the extent that a customer selects an alternative supplier to provide metering or billing, a credit based on avoided incremental costs could be applied to the rates of distribution customers.

On November 1, 2001, AES filed a Motion to receive its response out of time, together with its Reply Comments. In its Comments on the Staff Report, AES, by counsel, agreed with most of the recommendations made in the Staff Report, but, among other things, commented on the issue of the allocation of metering and billing costs to supply service, AP's proposed general administration fees charged to a CSP, and the fee for historical usage data for interval accounts. AES noted that it was not opposed to other cost based fees for supply services.

On November 14, 2001, the Commission Staff filed a Motion Requesting Leave to File Reply, together with its "Reply to the Comments in Response to Staff's October 12, 2001 Report of the Potomac Edison Company, d/b/a Allegheny Power and the Reply Comments of AES NewEnergy, Inc."

On November 15, 2001, the Commission entered an Order that granted AES' Motion to File Response Out of Time and permitted AES' Reply to be filed with the Commission; granted the Staff's November 14, 2001 Motion and received Staff's Reply; authorized AES and other interested parties to file further responses to the Staff's Reply by November 29, 2001; and directed Allegheny

to file any further response to the Staff's Reply on or before December 7, 2001.

On November 29, 2001, AES filed its "Reply Comments to the Staff's Comments Dated November 14, 2001" ("reply comments").

In its reply comments, AES observed that an examination of Appendix 3, Table A of Allegheny's application indicated that \$15 million of customer related costs have been fully allocated to distribution and that this allocation should not be considered de minimis relative to the \$4 million in metering and billing and collection costs. AES continued to oppose any general administrative, enrollment fees and other charges for non-optional elements of retail choice. It asserted that § 56-582 of the Code of Virginia did not support imposition of these fees as the functions giving rise to the fees is part of the delivery of energy to customers. AES opposed fees for historical usage data requests.

On December 7, 2001, AP, filed its Reply to Staff's November 14, 2001 comments ("Reply"). In its Reply, the Company opposed the Staff recommendation that the Company allow customer switches for alternative service providers at the time of special meter readings. The Company explained, among other things, that its billing system and the computer systems supporting customer billing have been designed to work off the regularly scheduled meter reading date. According to Allegheny,

allowing switching on other than the regularly scheduled meter reading date would require manual intervention into its billing system with corresponding reprogramming costs. It estimated that it would cost approximately \$1 million to accommodate residential customer switches at the time of special meter reads.

The Company further asserted that no waiver of Rule 20 VAC 5-312-80 H of the Retail Access Rules was necessary because, according to it, that Rule does not require customer switches on special meter reading where AP's distribution tariff did not provide for customer switches at such times. The Company reasoned that, since it reads its residential customers' meters once every two months, a residential customer may switch suppliers only once every two months. AP further noted that there was no evidence that an inability to switch CSPs on a monthly basis has slowed competition or even been an issue with customers or suppliers in the other states in which the Company has instituted customer choice. The Company asserted that it would not appear prudent at this point to require the expenditure of an estimated \$1 million in costs to accommodate "instant switching" when AP is experiencing a low level of participation in its customer choice programs in other jurisdictions, e.g., four customers out of a total of 216,118 eligible customers since customer choice became available on

July 1, 2000, in Maryland. AP remarked that it had received no interest from customers to switch CSPs at the time of special meter readings. AP requested a hearing by the Commission if the Commission directed it to permit customers to switch CSPs at the time of special meter readings.

AP offered to monitor the need to switch Virginia residential customers more frequently than once every two months and to make appropriate adjustments to its billing systems, with appropriate cost recovery mechanisms in place, if and when the lack of ability for a customer to switch suppliers monthly becomes a source of customer complaints or appears to be an impediment to the development of a competitive market.

AP also opposed the allocation of metering and billing costs to the production function. The Company contended that the metering and billing costs associated with its purchase of electric supply for its Virginia customers for wholesale purchases have been directly assigned to production costs. It explained that what is left in the distribution function are metering and billing costs associated with providing distribution services. AP noted that a customer switching to a CSP does not avoid metering and billing costs. The meter still has to be read, data entered into the billing system, the same paper size bill generated along with its associated envelope, and postage must be applied. In the Company's view, the

allocation of a portion of these distribution costs to the production function creates improper cost shifting and a subsidy.

The Company noted that if it were to be ordered to transfer 50% of the metering and billing costs from the distribution to the production function and a customer switches to an alternative electric supplier, AP would not recover 50% of its metering and billing costs for that customer. AP commented that as part of its Phase I functional separation plan, it agreed to forego stranded cost recovery through a wires charge, and thus had no other means to recover these costs.

The Company proposed that once a competitive billing provider or meter services provider assumes responsibility for metering and billing a customer's account, that the distribution utility should give the customer a credit reflecting the cost savings to the utility for no longer having to perform these metering and billing functions. AP explained that it is waiting to include such support as part of the proceedings in the two cases established by the Commission to consider competitive billing and competitive metering (Case Nos. PUE010297 and PEU010298). It asked the Commission to reserve judgment on the merits of the crediting proposal until the Company has had the opportunity to explain and support these proposals as part of these ongoing proceedings.

The Company agreed to clarify Section 4.4 of its Supplier Coordination Agreement to reflect that it will not terminate such agreements when a CSP is continuing to market in AP's service territory but currently has no customers. Revised page No. 13 to the tariff was attached with AP's Reply to reflect this clarification.

AP challenged AES' assertions that further costs should be allocated to the production function. It noted that the \$15 million referenced by AES does not represent customer service costs but includes distribution operation and maintenance costs classified as being customer related for cost allocation purposes. It explained that its cost of service analysis shows that investment in distribution poles and lines is split into customer and demand related components for allocation to customer classes. The Company maintained that these facilities are dedicated to distribution service, and there is no basis for assigning any portion of the costs related to the facilities to the production function.

AP noted in its Reply that in addition to capital costs related to the distribution facilities, there are expenses related to those facilities, including portions of FERC account 584 Underground Line Expense, FERC account 585 Distribution Street Lighting Expense, and FERC account 593 Distribution Maintenance Overhead Lines Expense. It contended

that these costs contained in the referenced \$15 million are more appropriately related to the distribution function.

The Company Reply identified \$798,000 as "Other Customer Service" costs, i.e., costs representing customer service and informational expenses, including costs incurred for such items as informational and instructional advertising, and assistance provided in response to customer requests for information, other than billing inquiries. It maintained that these costs will continue to be incurred by the distribution function of its business when functions are unbundled and should be appropriately classified as totally in the distribution function.

The Company continued to support its fees for service enrollment and general administration of CSP's participation and challenged AES' observation that most commissions have approved the waiver of fees for historical usage data. It advised that fees for historical usage data were approved in both Ohio and Maryland. AP asked that the Commission permit its rates and tariffs filed on October 12, 2001, to become effective for service on and after January 1, 2002.

NOW, THE COMMISSION, having considered the application, the supplemental filings thereto, the comments, Staff Report, and the Responses and Replies thereto, together with the applicable statutes and rules, finds that the cost of service study, retail

service tariff, and competitive service provider coordination tariff filed with the Commission on October 12, 2001, should be accepted as modified below, and as supplemented by the discussion of the issues set out herein. The issues discussed below include monitoring the Company's business practices, the allocation of metering and billing, allocation of further customer service costs to the production function, switching customers at the time of special meter readings, and special fees.

Monitoring Business Practices

We agree that it is important that the design and effectiveness of the Company's business practice and internal controls should continue to be monitored and reviewed. AP should, therefore, conduct annual internal compliance audits to ensure that its internal controls implemented following functional separation are adequate and in compliance with our regulations. We will require AP to file its audit results with the Commission's Division of Public Utility Accounting ("the Division") by May 1 of each year until such time as the Division determines that the information is no longer necessary. AP should report any future changes to its business practices or internal control to the Division.

Allocation of Metering and Billing

With regard to the issue of allocating some portion of metering and billing costs to the generation function, we find that there are practical difficulties at this time in allocating metering and billing costs embedded in bundled rates to the generation function beyond what the Company has proposed in this case for separating out costs to wholesale purchases. AP notes in its December 7, 2001 Reply that it will still have to read the meter, input data, and generate a bill once its rates are unbundled and retail access begins. Hence the rates approved herein reflect the assignment of these costs to the distribution function alone.¹²

Allocation of Further Customer Service Costs to Production Function

AES asserts that a portion of customer service costs, collection costs, regulatory costs, and operating costs related to the provision of default service should be allocated to the production function. AES asserts that utilities should not be able to subsidize default supply service by shifting default supply costs to the distribution component of their unbundled rates.

¹² AP remains at liberty to develop its crediting proposals in Case Nos. PUE010297 and PUE010298 relative to CSPs or meter services providers that assume responsibility for metering and billing a customer's account as Company proposed at page 7 of its Reply. We decline to decide this issue as part of this case.

In its November 14, 2001 Reply, Staff notes that AP's October 12, 2001 adjusted cost of service includes \$860,000 of uncollectible expense and \$9.5 million of Administrative and General expense, of which 41% has been allocated to the production function. AP observes in its December 7, 2001 Reply that the \$15 million of customer related costs at issue have been allocated to distribution because these costs are related to investment in distribution poles and lines, underground line expense, distribution street lighting expense, and distribution maintenance overhead lines expense. We agree that these costs are related to the distribution function.

The \$798,000 classified as "Other Customer Service" costs appear to be related to distribution functions such as customer service and information expenses related to requests for information other than billing related inquiries. We will not disturb these allocations.

Switching of Residential Customers
to CSP at the Time of Special Readings

AP has opposed permitting customers to switch competitive energy suppliers at the time of special meter readings. It notes that its billing system and supporting computer systems have been designed to work off the regularly scheduled metering reading date. It estimates a cost of approximately \$1 million to accommodate residential customer switches at the time of

special meter reads, and has offered to track off-cycle switching requests by its customers.

The Staff, in its Reply Comments, has supported permitting customers to change suppliers at the time of the special meter reading to allow more frequent switching for residential customers whose meters are read every two months.

We recognize the complexities that may be involved in accommodating off-cycle switches to a CSP. However, we also recognize the value of permitting residential customers to switch more frequently. We will therefore require the Company to track the number of off-cycle requests to switch CSPs and report such requests to the Division of Energy Regulation by May 1 and November 27 of each year. If the issue of off-cycle readings appears prospectively to be a source of customer complaints or an impediment to CSPs offering service, we will re-examine this issue at that time.

Supplier Fees

AES has opposed general administration, enrollment fees, scheduling fees, and other non-optional elements of retail choice. Staff has not opposed these fees, but observed in its filings that they appear to be supported by cost data provided by the Company.

Section 56-582 of the Act, which establishes the parameters for capped rates, states that capped rates shall "include rates

for new services where, subsequent to January 1, 2001, rate applications for such services are filed by incumbent electric utilities with the Commission" and are thereafter approved by the Commission. The instant application, to the extent that it requests the approval of fees for new services, falls within the meaning of this provision. Accordingly, we will permit the fees set out in the revised supplier coordination tariff filed on October 12, 2001, except for the proposed fees for general administration and registration of CSPs opposed by AES, which we do not find to be "new services" provided by the Company within the meaning of the Act. There will certainly be additional costs of doing business in the new retail choice environment but like other cost increases,¹³ they are not recoverable because of the capped rate limitation of the Act. When the Company is eligible to file its next distribution rate case, and we are free to examine both increasing and decreasing company expenses, we will then be able to consider the recovery of these costs.

With regard to the correction of Section 4.4 of AP's Supplier Coordination Agreement, we will accept the revised tariff page included as Attachment No. 1 to the Company's December 7, 2001 Reply as clarifying the Company's practice

¹³ Other than the adjustments permitted for the tax changes, fuel expense, and financial distress under § 56-582 B of the Code of Virginia.

relative to a CSP that is marketing in AP's service territory but has no customers.

Accordingly, IT IS ORDERED THAT:

(1) AP shall file its annual internal compliance audit results with the Division of Public Utility Accounting by May 1 of each year until such time as the Division determines that the information is no longer necessary.

(2) AP shall report any future changes to its business practices or internal controls to the Division of Public Utility Accounting.

(3) The Commission Staff shall, as necessary, conduct audits and reviews of the Company books, records, and work papers and conduct meetings to ensure compliance with § 56-590 of the Code of Virginia and the regulations put forth by the Commission in Case No. PUA000029.

(4) Except as modified herein and consistent with the discussions set out above, the revised unbundled rates, fees, charges, and terms and conditions found in AP's October 12, 2001 filing with the Commission shall be adopted, effective for service rendered on and after January 1, 2002. The Company shall forthwith file the revised unbundled rates, fees, charges, and terms and conditions approved herein with the Division of Energy Regulation.

(5) The Company's proposed fees for new services are reasonable and are adopted, with the exception of AP's proposed registration and general administration fees for competitive suppliers.

(6) The Company shall track the number of requests to switch CSPs made following special meter readings as well as customer complaints regarding this issue and report this information to the Division of Energy Regulation by May 7 and November 27 of each year, following AP's implementation of customer choice.

(7) This matter is dismissed.